Retail Banking: An Evolving Landscape
OVER 75% of PCA market held by UK’s 4 largest banks

80% of customers ‘happy’ or ‘very happy’ with their provider

€15-20 billion prospective annual saving for European banks leveraging online services

50% of simple banking transactions conducted in branch

34% switch for cash incentives

BANKS CLOSED
2,267 branches in 2013

AND OPENED
only 1,149

ONLY 9% switch due to poor service
Introduction

The environment within which retail banks operate has changed significantly since the 2008 global financial crisis. Nevertheless, the transformation is far from complete; retail banks face a wide range of evolving challenges. Innovation and digital strategy will remain at the forefront of retail banks’ change agendas.

Popular contention suggests that an increasingly competitive and commoditised marketplace is driving innovation, as banks seek to differentiate themselves from one another. However, the fact that over 75% of the PCA market is held by the UK’s four largest banks¹, significantly undermines the premise of this assertion.

Year on year, significant technological advances complicate a digital landscape with which banks struggle to keep pace. Comparatively, the banking industry is slow to marry evolving technologies to practically applicable innovation.

Notwithstanding this, retail banks readily accept that technological progression equates to improved operations, cost efficiencies and a route to competitive advantage. However, a misconception within the industry persists – that innovation equates to technically-driven development. Technology is not commensurate with innovation and, alone, will not deliver a competitive advantage.

Withal, it is imperative that retail banks retain a focus on ‘what matters most’. More than ever, a multitude of challenges, including innovation, regulatory pressures and cost-reduction, are competing for superiority at the top of boards’ agendas.

Customer-centricity and thus service, must be the drivers of innovation. Consequently, despite the trend towards web-based banking services, branches should obtain commensurate investment. Given the existing sales revenues realised by operationally ineffective branches, branch-based innovation, technical or not, could deliver greater scope for margin than the various other ‘en vogue’ digital prospects.

Nonetheless, innovation and digital solutions should be embraced, albeit with due strategic consideration, planning and insight. A customer centric group strategy, aligned to an integrated digital strategy, driven by innovative ambition, will provide banks with the foundations to thrive sustainably.

¹ OFT – Review of the personal current account market, January 2013

“Consumers get Financial Services and products that meet their needs from firms they can trust”
FCA Risk Outlook 2013
Customer interaction

No other financial product provides banks with the same level of customer interaction as Personal Current Accounts (PCAs).

Moreover, close to 50 per cent of simple banking transactions are conducted in branch. Correspondingly, customer-centric strategies should not neglect the importance of PCA and branch-based evolution, for they represent the most natural platform for cross-product sales growth.

The data garnered from PCA interaction is a valuable source to inform and countenance future strategic decision making, but more importantly, it is essential to ensure that products are aligned to the needs of customers.

Despite the obvious incentives, banks have struggled to find innovative means through which they can capitalise on the PCA-based relationship. Establishing a unique differentiator within the current account landscape is an on-going challenge.

Over the last decade, digital banking technologies have changed client interaction dramatically. People value the convenience of internet banking for simple transactions; however, where more significant interaction is required, such as loan applications or mortgages, branches remain the preferred medium.

Therefore, the importance of branch evolution alongside digital innovation is the key path retail banks must follow; fulfilling customers’ preferences to interact with their bank is intrinsically linked with their level of satisfaction.

Customers value the luxury of choice. Ensuring communication channels align to customer preferences and expectations is a fundamental prerequisite of an informed digital strategy.

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2 Grant Thornton Challenger Bank Research, July 2013
Loyalty and satisfaction

Despite the reputational crisis that followed the financial meltdown, the majority of retail customers categorise themselves as ‘happy’ or ‘very happy’ with their primary account provider. Indeed, while there is a clamour from regulators for greater competition in this space, there is little sign of demand from customers. The Payments Council confirmed that in the first month since the launch of the new Current Account Switch Service, there has only been an additional 9,000 switches, compared to data for the same month last year. The concentration of the PCA market, despite recent new additions to the field, reinforces this contention.

To compel customers to switch their existing PCA provider, challenger banks will need to look beyond regulatory assistance encouraging competition and enhanced switching services. Providing market-leading customer service and changing the perception of ‘what good looks like’ will be fundamentally important.

Channel progression

Branches have been at the centre of transformational discussion in the UK for a sustained period, hitherto a harmonious solution is yet to emerge.

Over recent years, the branch network in the UK has been in significant decline. Branches represent a significant proportion of operational cost. As a result, organisations must deploy innovative solutions to extract maximum value from this cost base.

Customers still value expert financial advice, delivered in person, particularly when discussing more complex products.

Providing customers with a personal experience and valuable advisory services at a sustainable cost will feature heavily in firms’ strategies. Harnessing innovative solutions and digital technology will be central to achieving this balance.

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3 Payments Council - 89,000 current account switches during first month of service, October 2013
4 Grant Thornton Challenger Bank Research, July 2013
5 OFT – Review of the personal current account market, January 2013
Digital innovation

Technical innovation presents banks with the greatest opportunity to differentiate themselves from their competitors. Furthermore, the cost-efficiencies associated with digital channels must be exploited to build a sustainable multi-channel business.

Internet banking is an undisputed success, yet has failed to significantly develop its offering over the last decade.

Building trust in digital channels will be a prerequisite for this medium to expand its product footprint. Banks must target a level of trust in the service akin to that held by branches.

The evolution of internet-based banking, particularly the promotion and sale of products represents an area of noteworthy opportunity, particularly for more flexible challenger banks.

Customers favour internet banking for simple transactions. However, to encourage customers to adjust entrenched habits requires both trust and innovatory incentives.

Mobile banking

Internet banking has firmly established itself as a medium of choice, meanwhile mobile-based payments and application-based PCA maintenance are yet to make a significant impression.

However, the ‘smartphone revolution’ is likely to change the face of banking immeasurably. As innovative solutions evolve customers will make fewer visits to banks, yet, via mobile banking applications, transaction volumes are set to skyrocket.

The simple ability to pay bills, transfer funds or pay in a paper-based cheque via photo-based technology will greatly appeal to customers.

As a result, accessibility will emerge as a key feature of future digital strategies. Subsequently, progressive organisations will continue to invest in mobile banking solutions, but must align them to existing digital platforms.

Banks must dovetail internet-based banking solutions and other digital channels, such as mobile banking, under a unified Digital Strategy.

*Figure 4: Reasons for switching: How to attract customers*

6 Grant Thornton Challenger Bank Research, July 2013
7 The Economist – Branches, Withering Away, May 2012
Financial Services Business Consulting
Harnessing innovation to deliver integrated solutions

Grant Thornton have market-leading experience assisting organisations to define and implement digital strategies that embrace innovation and harness technology to deliver customer-centric solutions.

Our Financial Services Business Consulting practice combines the skills, knowledge and experience within Grant Thornton’s Financial Services Group, to provide a full suite of services across the delivery lifecycle, from strategic advisory to assurance.

Challenge
Our client was looking to develop their mortgage distribution strategy in response to the Mortgage Market Review (MMR). The objective was to augment the firm’s existing distribution network, leveraging a market-leading video conferencing service.

The high-level requirement was to establish an enhanced, customer-centric mortgage advisory service, that satisfied MMR requirements and balanced distribution costs.

The solution was to be scalable across the core business, able to extend expert advice to multiple financial products traditionally sold via the branch network.

Approach
Grant Thornton assembled a team able to draw on a wealth of experience spanning distribution strategy, through digital innovation to technology implementation.

Working closely with a range of client teams across the retail network, our team applied well established, top-down methodologies to:

- Define and agree the strategic and operational objectives of the initiative
- Establish stakeholder buy-in and programme governance
- Capture high-level and detailed business requirements
- Define and agree a future state functional operating model, including interaction models
- Develop an inter-channel interaction model, that was scalable across product ranges
- Develop an implementation ‘Playbook’ to facilitate programme rollout and manage deployment across multiple locations

Benefits
We assisted our client to expedite their channel development programme by leveraging our experience and industry knowledge to meet major operational, distribution and regulatory challenges.

Benefits included:

- Customer Satisfaction: Customer satisfaction surpassed KPI objectives, both in-branch and within telephony
- Increased Revenue: Uplift in product sales, with branches experiencing over 60% increase of in-scope sales
- Cost Reduction: Costs per consultation dropped by over 50%
- Delivery Efficiency: Grant Thornton delivered the project in less than 12 weeks with a return on investment for the client estimated at less than six months
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